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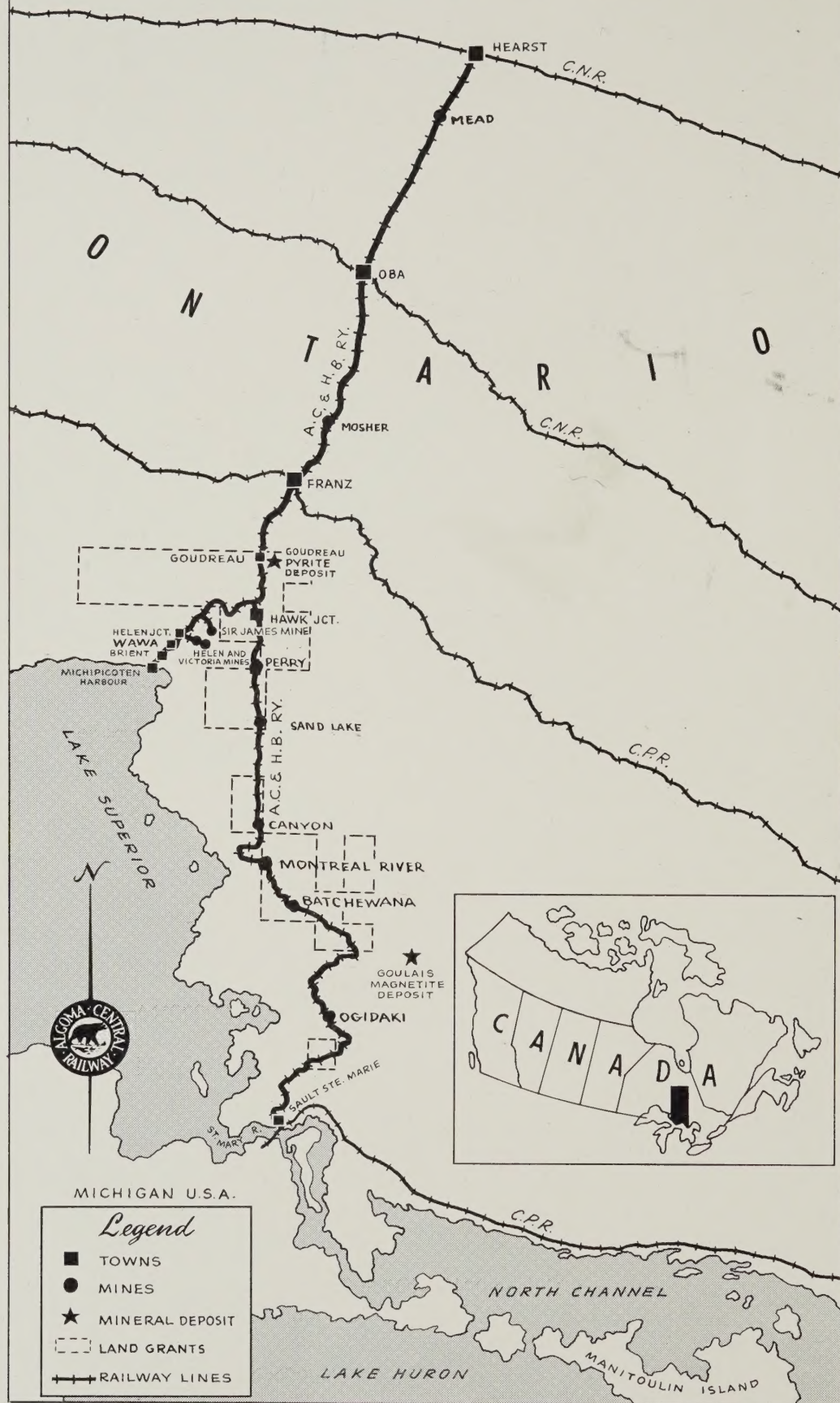


JUN 27 1960

Annual Report

FOR THE YEAR ENDED DECEMBER 31st, 1959

The Algoma Central and Hudson Bay Railway Company



THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY

SUBSIDIARY COMPANIES

ALGOMA STEAMSHIPS LIMITED

THE SUPERIOR ROLLING STOCK COMPANY LIMITED

Board of Directors

- * J. B. AIRD, Q.C.
2 Glenallan Road, Toronto, Ontario
- * E. B. BARBER
Pinehurst, Summit Avenue, Sault Ste. Marie, Ontario
- * C. F. W. BURNS
Kingfield Farms, King, Ontario
- * K. W. DALGLISH
2162 Sherbrooke Street W., Montreal, Quebec
- H. R. JACKMAN, Q.C.
35 Rosedale Road, Toronto, Ontario
- R. A. JODREY
Hantsport, Nova Scotia
- * SIR DENYS LOWSON, BART.
Brantridge Park, Balcombe, England
- G. S. SAUNDERSON, Q.C.
Sherwood Manor, R.R. 1, Maple, Ontario
- * L. C. WAUGH
144 Leo Avenue, Sault Ste. Marie, Ontario
- N. R. WHITTALL
424 Burrard Street, Vancouver, British Columbia

*—Members of Executive Committee

Officers

SIR DENYS LOWSON, BART.	CHAIRMAN OF THE BOARD
E. B. BARBER	PRESIDENT
L. C. WAUGH	VICE-PRESIDENT AND GENERAL MANAGER
K. W. DALGLISH	VICE-PRESIDENT
G. S. SAUNDERSON, Q.C.	GENERAL COUNSEL AND SECRETARY
C. H. PAUL	TRAFFIC MANAGER
W. H. EVANS	TREASURER
T. B. GILLESPIE	COMPTROLLER

Transfer Agents

PREFERRED - NATIONAL TRUST COMPANY, LIMITED
Toronto, Montreal and Vancouver

COMMON - ROYAL TRUST COMPANY
Toronto, Montreal and Vancouver

Stock listed on

THE TORONTO STOCK EXCHANGE
THE LONDON STOCK EXCHANGE

Bank

BANK OF MONTREAL

Auditors

DELOITTE, PLENDER,
HASKINS & SELLS
Toronto, Ontario

Special Counsel

J. G. EDISON, Q.C.
Toronto, Ontario

THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY

Comparative Highlights

	<u>1959</u>	<u>1958</u>
GROSS REVENUES	11,915,621	11,387,227
NET INCOME AFTER INCOME TAXES	1,323,829	1,292,695
TOTAL PAYROLL	4,537,811	4,257,847
EMPLOYEE BENEFITS	163,014	156,451
TAXES — INCOME AND ALL OTHER	1,403,894	1,171,574
PLANT AND EQUIPMENT ADDITIONS	842,463	518,968
DEPRECIATION	1,351,259	1,561,752
LONG TERM DEBT	12,406,500	13,469,000
SHAREHOLDERS' EQUITY	15,018,639	14,081,070
EQUITY PER COMMON SHARE (excluding capital surplus)	20.55	18.33
RETAINED INCOME	4,318,159	3,380,590
CURRENT ASSETS	4,267,193	4,068,300
CURRENT LIABILITIES	1,618,781	2,240,902
WORKING CAPITAL	2,648,412	1,827,398
WORKING CAPITAL RATIO	2.64/1	1.82/1

PRESIDENT'S REPORT

To the Shareholders of

THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY:

On behalf of the Board of Directors, it is again my pleasure to present the report of operations and developments of the Company for the year 1959. The comparative highlights of the years 1959 and 1958 shown on this page together with the various statistics set out in the report indicate a year of achievement, despite the effects of the steel strike in the United States and rising labour and material costs.

During the year the refinancing of the Funded Debt of the Company was completed. After payment of dividends on the new preferred shares, the earnings per common share amounted to \$2.72 in 1959. On a comparative basis the earnings for 1958 were \$2.52.

The Company benefited through a marked increase in the products of Mines shipped in 1959. Rail revenue tons hauled increased by 1,129,840 tons, a tonnage increase of 30% resulting in a revenue increase of 12%. Comparative revenue ton figures are as follows:

	<u>1959</u>	<u>1958</u>
Products of agriculture	10,639	13,664
Products of mines	3,841,303	2,697,790
Products of forests	349,391	405,813
Manufactured goods and miscellaneous	711,743	665,969
	<u>4,913,076</u>	<u>3,783,236</u>

The steel strike in the United States adversely affected the steamship operations to a marked degree as compared with the previous year. Whereas it was anticipated that ore shipments to be carried in our vessels would increase by approximately 160,000 tons over 1958, the actual ore tonnage movement was down 132,200 tons. However, the increase of 51,200 tons in grain, 81,300 in coal and 27,300 in miscellaneous products resulted in an over-

all tonnage increase of 27,600. While steamship revenues decreased by approximately \$70,000, steamship expenses increased by \$115,000, due mainly to the carriage of grain, the introduction of Seaway tolls, increased wages and delays in canalling and unloading.

In addition to the payment of dividends on the new preferred shares, the Company was able to declare a quarterly dividend of 25 cents per common share on December 1, 1959. The Directors view with great satisfaction the inauguration of the first common dividend ever paid by the Company since its incorporation in 1899, more than sixty years ago. It should be noted that the Company was able to reduce its funded debt by re-acquisition and cancellation of 5 $\frac{3}{4}$ % Bonds and Debentures in the amount of \$795,500, which greatly exceeds the total Sinking Fund requirements of \$407,000 due at March 1, 1960.

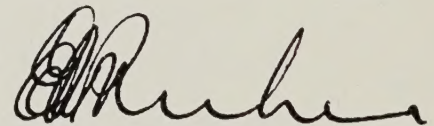
Capital expenditures for 1960 are estimated at approximately \$947,000 and will include the commencement of the rail replacement programme amounting to \$360,000 for this year. Equipment trust certificates of \$267,000 will also be redeemed. ✓

Estimates of Rail and Steamship receipts for 1960 are expected to be slightly in excess of 1959 although once again we are faced with increased labour costs through union agreements now in force for operating trades.

Although there were no significant mining discoveries on your lands during the last twelve months, the area continues to have great potentialities and your Directors are doing everything possible to encourage exploration.

Your Directors wish to express their appreciation to those who made this successful year possible; to our shippers for their custom and to our officers and employees for their continued efficiency and loyalty to the Company.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read 'E. M. R. ...', written in a cursive style.

President

Rail Statistics

FREIGHT REVENUE

1959	\$7,505,822	11%
1958	\$6,709,274	

REVENUE LOCOMOTIVE MILES

1959	10,044,669	8%
1958	932,706	

TONNAGE CARRIED

1959	4,913,076	30%
1958	3,783,236	

LOADED CAR MILEAGE

1959	15,268,991	10%
1958	13,829,831	

REVENUE TRAIN MILES

1959	556,562	10%
1958	506,153	

FREIGHT TRAFFIC REVENUE

(expressed in dollars)

1959

1958

.0179

PER TON MILE

.0183

1.5277

PER TON OF FREIGHT

1.7734

.8371

PER LOADED CAR MILE

.8092

21.13

PER TRAIN MILE

22.04

23.325

PER MILE OF ROAD

20,850

THE ALGOMA CENTRAL AND H

AND SUBSID

CONSOLIDATED BALANCE SH

ASSETS

CURRENT ASSETS:

Cash	\$ 502,421	
Temporary cash investments, at cost (market value \$1,676,750)	1,665,000	
Agents' and conductors' balances	612,515	
Traffic accounts receivable	154,824	
Other accounts receivable	268,252	
Materials, fuels and supplies, at cost	1,064,181	\$ 4,267,193
		<hr/>

DEFERRED DEBITS:

Accident insurance fund:

Investment in bonds, at cost		
(market value \$115,410)	\$137,179	
Cash and other items	29,303	166,482
	<hr/>	
Prepayments	101,081	
Deferred assets	56,472	
Unadjusted debits	30,122	354,157
		<hr/>

PROPERTY INVESTMENT:

Road and equipment (including lake steamships), at cost	39,056,220	
Land grant lands, at nominal value	1	39,056,221
	<hr/>	

Approved on behalf of the Board:

E. B. BARBER,
Director

DENYS LOWSON,
Director

TOTAL \$43,677,571

The attached notes are an integr

SON BAY RAILWAY COMPANY

COMPANIES

AS AT DECEMBER 31, 1959

LIABILITIES

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 447,113	
Traffic accounts payable	171,267	
Income taxes accrued	538,352	
Equipment trust certificates payable within one year	267,000	
Interest accrued on funded debt	195,049	\$ 1,618,781

DEFERRED CREDITS AND RESERVES:

Accident insurance fund reserve	166,482	
Maintenance reserve	98,628	
Tax equalization reserve	477,946	
Unadjusted credits	46,507	789,563

PROVISION FOR DEPRECIATION		13,844,088
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FUNDED DEBT:

5¾% First Mortgage Sinking Fund			
Bonds Series A, due March 1, 1979	\$ 7,500,000		
Less redeemed and cancelled - Note 4	466,000	7,034,000	
5¾% Sinking Fund Debenture Series A,			
due March 1, 1980 - Note 2	3,500,000		
Less redeemed and cancelled - Note 4	329,500	3,170,500	
4%, 4¼% and 5¾% Equipment Trust			
Certificates maturing 1960 to 1972	2,469,000		
Less amounts due within one year shown			
in current liabilities	267,000	2,202,000	12,406,500

SHAREHOLDERS' EQUITY:

Capital stock:			
Authorized:			
250,000 preferred shares, par value \$50 each			
1,000,000 common shares, par value \$10 each			
Issued - Notes 1 and 2:			
79,774 6% Cumulative Redeemable Convertible			
Preferred Shares	3,988,700		
421,433 common shares	4,214,330		
		8,203,030	
Capital surplus - Note 6	2,370,647		
Premium on conversion of capital stock	4,520		
Donations and grants	122,283		
Retained income - Note 1	4,318,159		15,018,639

TOTAL			<u>\$43,677,571</u>
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THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY
AND SUBSIDIARY COMPANIES

STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1959

(with comparative figures for 1958)

CONSOLIDATED INCOME ACCOUNT

	<u>1959</u>	<u>1958</u>
GROSS RECEIPTS:	\$11,915,621	\$11,387,227
Less: Working expenses (including depreciation of \$1,351,259 - Note 8 \$1,561,752)	\$ 8,013,739	\$ 7,922,619
Administrative and general expenses	348,098	298,731
Current pension and retirement cost	101,956	109,085
Interest on equipment trust certificates	136,265	148,913
Interest on Algoma Steamships Limited bonds		17,717
Taxes	93,708	101,737
	8,693,766	8,598,802
NET OPERATING INCOME	3,221,855	2,788,425
Add: Interest on investments and deposits	46,454	47,219
Net income - land grant lands	20,528	19,037
Gain on foreign exchange	6,394	48,920
	73,376	115,176
Less: Net interest incurred on refinancing	54,455	25,644
	18,921	89,532
	3,240,776	2,877,957
	606,761	515,425
NET INCOME BEFORE PROVIDING FOR INCOME TAXES	2,634,015	2,362,532
Estimated income taxes - Note 7	1,310,186	1,069,837
NET INCOME	\$ 1,323,829	\$ 1,292,695

CONSOLIDATED STATEMENT OF RETAINED INCOME

BALANCE AT JANUARY 1	\$ 3,380,590	\$ 2,716,304
Add: Net income for the year	\$ 1,323,829	\$ 1,292,695
Gain on purchase and sale of investments	44,008	37,425
Proceeds from land grant lands - net	21,168	49,410
	1,389,005	1,379,530
	4,769,595	4,095,834
Less: Refinancing expenses written off	99,716	170,244
Discount on equipment trust certificates	37,913	
Commission on new preferred shares		180,000
Discount on new funded debt		365,000
Adjustment of depreciation of a prior year	28,894	715,244
	166,523	
	4,603,072	3,380,590
Less: Dividends:		
Preferred shares	179,555	
Common shares	105,358	284,913
	284,913	
BALANCE AT DECEMBER 31	\$ 4,318,159	\$ 3,380,590

The attached notes are an integral part of the financial statements.

THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1959

1. Dividends on the common shares and redemption of the 6% Cumulative Redeemable Convertible Preferred Shares (except for payments in respect of the Convertible Preferred Share Purchase Fund) are restricted by the terms of the First Mortgage Trust Deed and the Debenture Trust Indenture.
2. 316,322 common shares are reserved for issuance against the exercise of the stock purchase warrants carried by the 5¾% Sinking Fund Debentures Series A and the conversion privilege attaching to the 6% Cumulative Redeemable Convertible Preferred Shares. During the year 226 preferred shares were so converted and cancelled, resulting in the issue of 678 additional common shares.
3. The company is obligated, in the fiscal year 1960, to apply \$100,000 to the retirement of the 6% Cumulative Redeemable Convertible Preferred Shares, provided that preferred shares are available for purchase at a price not exceeding \$52.50 per share plus costs of purchase.
4. By the terms of the First Mortgage Trust Deed and the Debenture Trust Indenture, the company has covenanted to establish sinking funds for the annual retirement of fixed amounts of 5¾% First Mortgage Sinking Fund Bonds Series A and 5¾% Sinking Fund Debentures Series A. On March 1, 1960 the requirement is \$283,000 in principal amount of bonds and \$124,000 in principal amount of debentures, and the company has elected to apply sufficient of the bonds and debentures already reacquired by purchase and cancelled to satisfy this covenant. The remainder of the cancelled bonds and debentures are available for sinking fund purposes in 1961 and subsequent years.

At December 31, 1959, the company had contracted to purchase a further \$150,000 of 5¾% First Mortgage Sinking Fund Bonds Series A.
5. The unclaimed funds placed on deposit with the trustee in 1959 for the redemption of the 5% Income Debenture Stock and/or Bonds have been invested and the company has received interest thereon. The balance of funds unclaimed thirty years from March 10, 1959, representing the Income Debenture Stock and/or Bonds not surrendered at that date, will be returned to the company. At December 31, 1959 the unclaimed funds held by the trustee amounted to \$948,219 of which \$932,126 was invested.
6. Capital surplus is the balance arising from re-organization of the company's capital structure as of December 31, 1930.
7. Capital cost allowance to be claimed for income tax purposes exceeds depreciation charged in the accounts. As a result, the amount of 1959 income tax estimated to be payable is less than the amount provided in the accounts by \$188,903. This amount has been credited to tax equalization reserve.
8. Depreciation on the vessel "E. B. Barber", prior to its transfer from a subsidiary to the Railway Company at the beginning of 1959, was calculated on the diminishing balance method. In the accounts of the Railway Company for 1959, depreciation on the vessel has been calculated on the basis of estimated useful life, in conformity with the basis used for other railway assets. Had the diminishing balance method been retained, consolidated net income after provision for income taxes would have been reduced by approximately \$90,000.

AUDITORS' REPORT

To the Shareholders of

THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY:

We have examined the consolidated balance sheet of The Algoma Central and Hudson Bay Railway Company and Subsidiary Companies as at December 31, 1959 and the consolidated income account and consolidated statement of retained income for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, the accompanying consolidated balance sheet and the consolidated income account and consolidated statement of retained income are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the companies as at December 31, 1959 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied (except for the change in depreciation method explained in Note 8 to the financial statements) on a basis consistent with that of the preceding year.

Toronto, Canada,
February 19, 1960.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

THE ALGOMA CENTRAL AND HUDSON BAY RAILWAY COMPANY
AND SUBSIDIARY COMPANIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

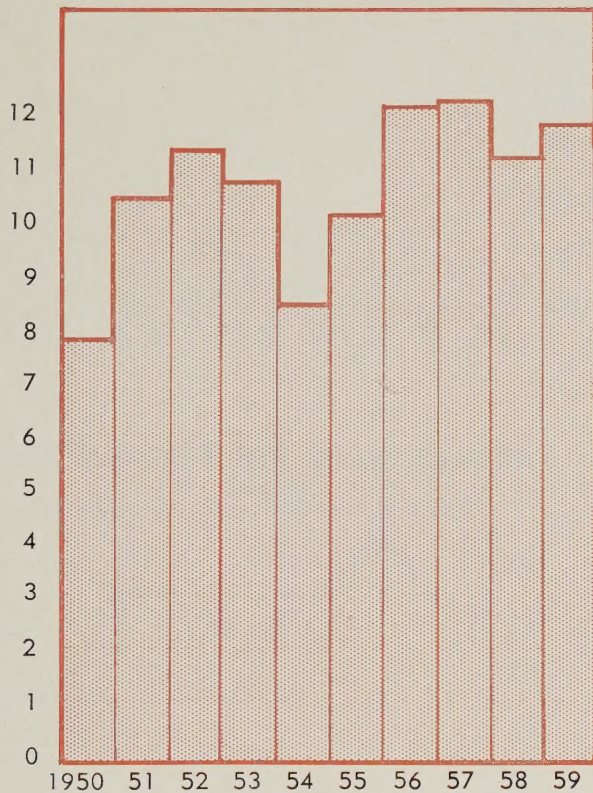
FOR THE YEAR ENDED DECEMBER 31, 1959

(with comparative figures for 1958)

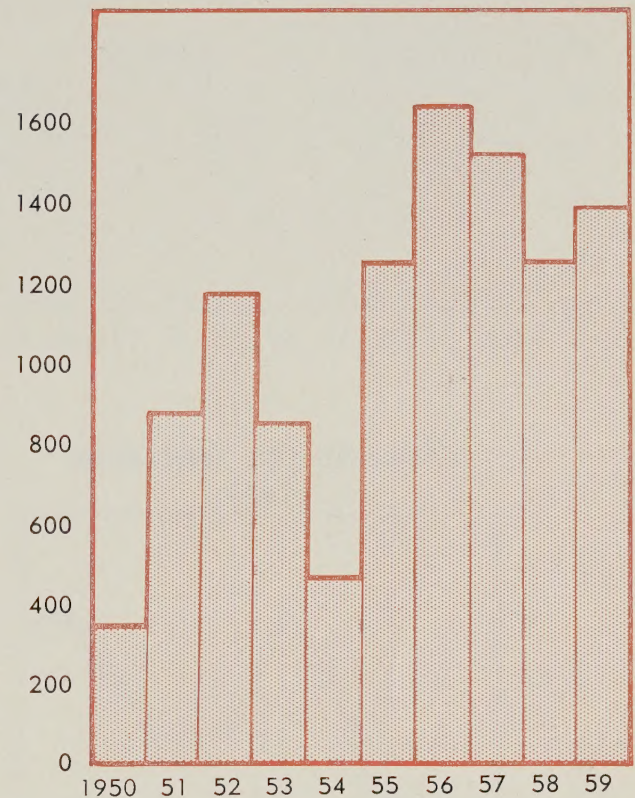
	<u>1959</u>	<u>1958</u>
Source of Funds:		
Net income for the year	\$ 1,323,829	\$ 1,292,695
Depreciation	1,351,259	1,561,752
Amortization	4,139	4,139
Increase in tax equalization reserve	188,903	118,208
	<hr/>	<hr/>
Funds from operations	2,868,130	2,976,794
Proceeds from issue of 6% preferred shares		3,820,000
Proceeds from issue of 5¾% bonds and debentures		10,635,000
Proceeds from disposals of property investment	53,666	42,580
Gain on purchase and sale of investments	44,008	20,955
Proceeds from land grant lands - net	21,168	49,410
Donations and grants		96,227
Decrease in net deferred debits and reserves	123,634	
	<hr/>	<hr/>
	3,110,606	17,640,966
	<hr/>	<hr/>
Application of Funds:		
Additions to property investment	842,463	518,968
Refinancing expenses	99,716	170,244
Reduction of funded debt:		
5¾% bonds and debentures	795,500	
5% bonds (including interest)		15,308,123
Algoma Steamships Limited bonds		445,000
Equipment trust certificates	267,000	267,000
Redemption of 5% preferred shares		500,000
Dividends - Preferred	179,555	
- Common	105,358	
Increase in net deferred debits and reserves		239,007
	<hr/>	<hr/>
	2,289,592	17,448,342
	<hr/>	<hr/>
Increase in Working Capital	821,014	192,624
Working Capital, January 1	1,827,398	1,634,774
	<hr/>	<hr/>
Working Capital, December 31	<u>\$2,648,412</u>	<u>\$ 1,827,398</u>

The Fifties in Review

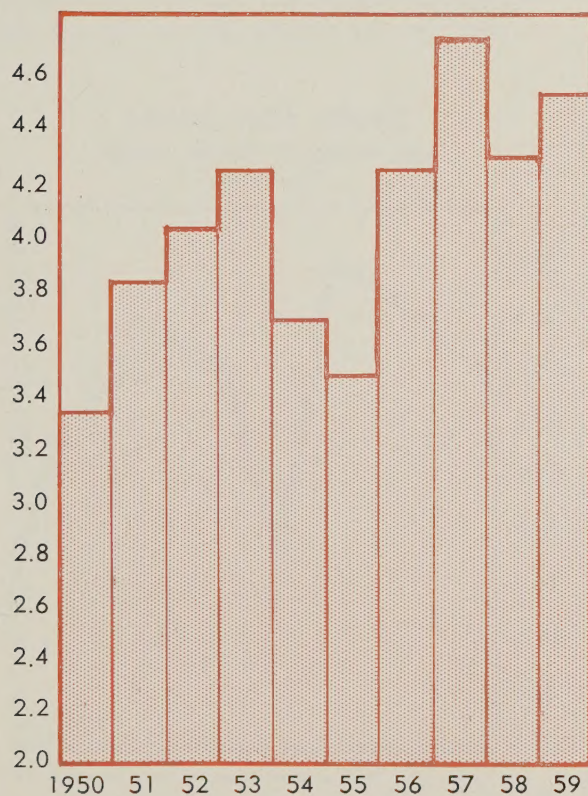
GROSS REVENUES
(Millions of Dollars)



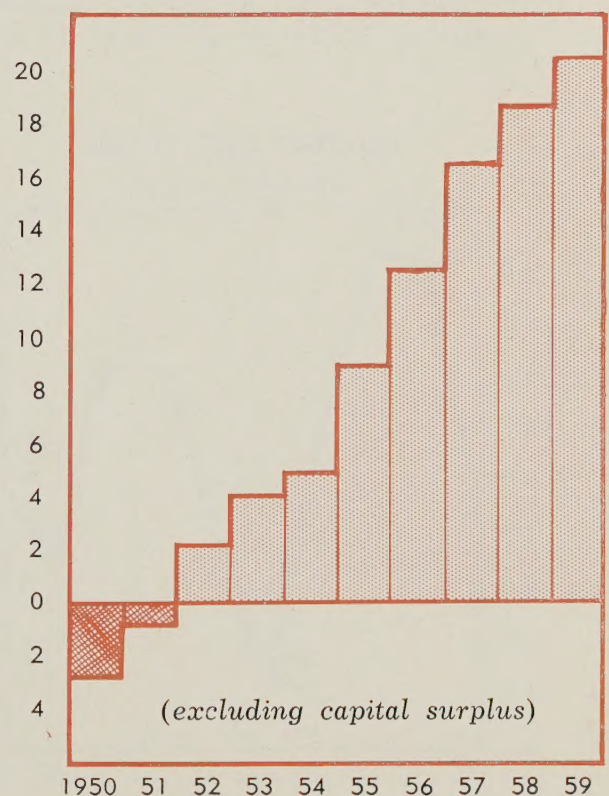
NET INCOME AFTER TAXES
(Thousands of Dollars)



GROSS PAYROLL
(Millions)



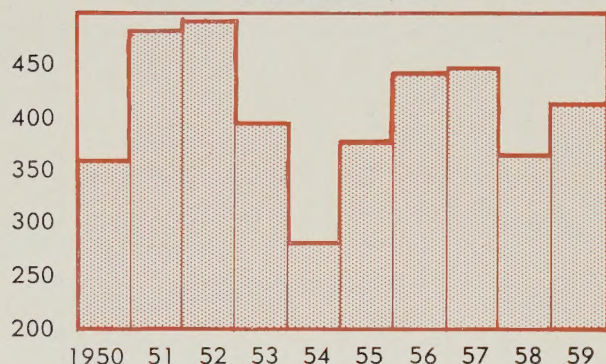
EQUITY PER COMMON SHARE
(Dollars)



The Fifties in Review

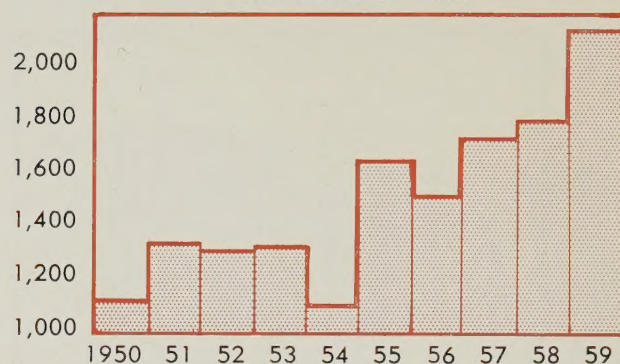
REVENUE TON MILES

(Millions of Tons)



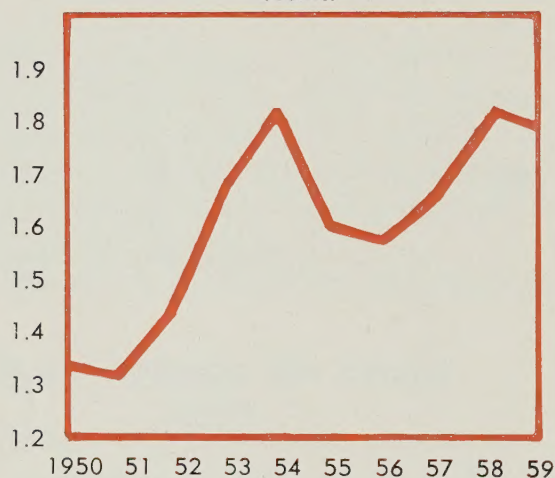
SINTERED ORE TONNAGE

(Thousands of Tons)



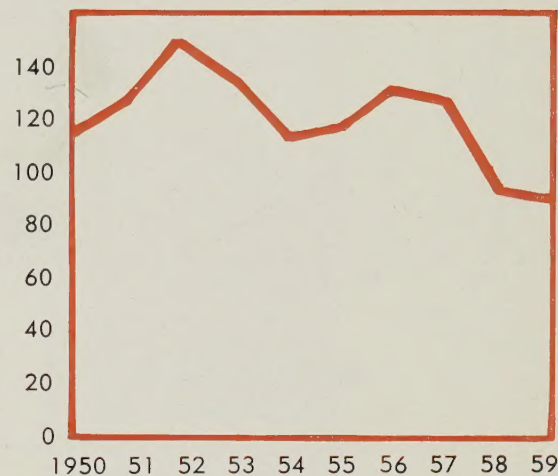
REVENUE PER TON MILE

(Cents)



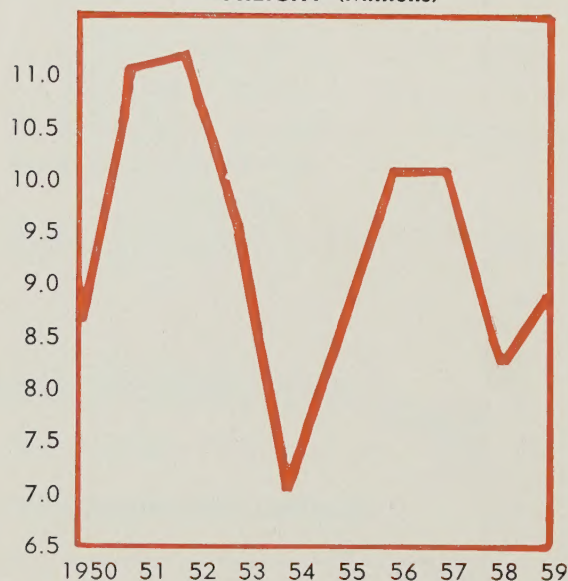
AVERAGE HAUL PER REVENUE TON

(Miles)



LOADED CAR MILES

—FREIGHT (Millions)



GROSS TON MILES PER FREIGHT TRAIN HOUR

(Thousands)

